

INTERIM RESULTS PRESENTATION

For the 26 weeks to
29 December 2019



WELCOME

PRESENTATION OUTLINE

FIRST HALF REVIEW

Pieter Engelbrecht

FINANCIAL RESULTS

Anton de Bruyn

STRATEGY UPDATE

QUESTIONS

Pieter Engelbrecht



FIRST HALF REVIEW

Chief Executive Officer
PIETER ENGELBRECHT





FIRST HALF 2020 HIGHLIGHTS

SALES

R81.2bn

+7.0%

GROSS PROFIT

R19.1bn

+8.7%

TRADING PROFIT

R4.0bn

-3.9%

Excl.
hyperinflation
+7.0%

TOTAL EXPENSES

R16.5bn

+7.7%

EBITDA

R6.8bn

+5.3%

Excl.
hyperinflation
+13.0%

DILUTED HEPS

372.4c

-2.6%

Excl.
hyperinflation
+15.7%



STRONG OPERATIONAL METRICS

**MORE
CUSTOMERS**



+2.1%

GROUP CUSTOMER GROWTH

**HIGHER
VOLUMES**



+4.4%

GROUP VOLUME GROWTH

**PROFITABLE
MARKET SHARE GAINS**



+R2.4bn

RSA MARKET SHARE GAIN

+12.0m

CUSTOMER VISITS

4.0bn

PRODUCTS SOLD

+1.1%

RSA MARKET SHARE GAIN



CORE RSA BUSINESS DRIVING GROWTH

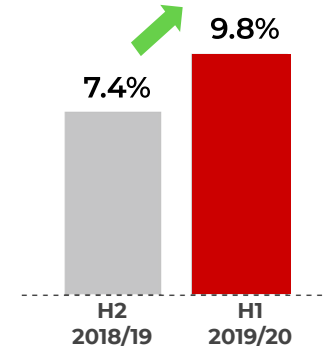
- **Accelerated Supermarkets RSA sales growth of 9.8%**

- Like-for-like: 6.6%
- Internal sell inflation remained low at 2.7%
- 1.2% space growth (m²), net +102 stores
- Liquor sales increased 20.5%

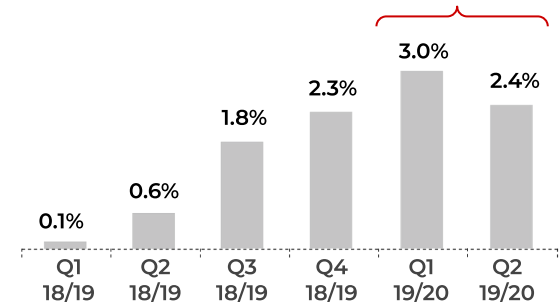
- **As growth in the rest of the market slowed**

- Other retailers' sales growth slowed to just 4.5%
(Nielsen: 6mm Dec 2019)
- 11-year low total retail sales growth in December
(StatsSA)

Supermarkets RSA sales growth



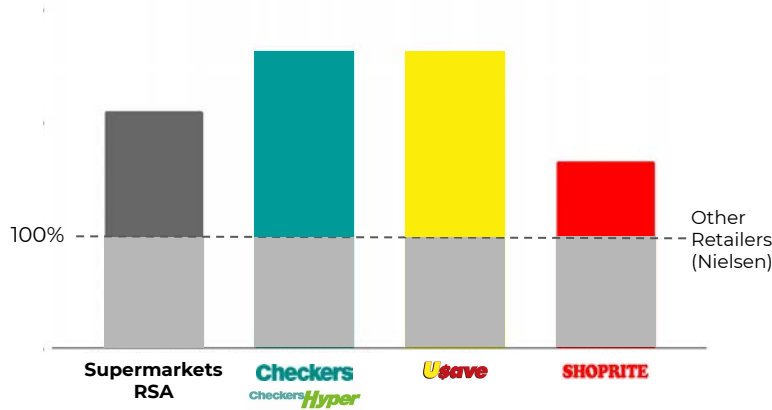
Supermarkets RSA internal sell inflation 2.7%



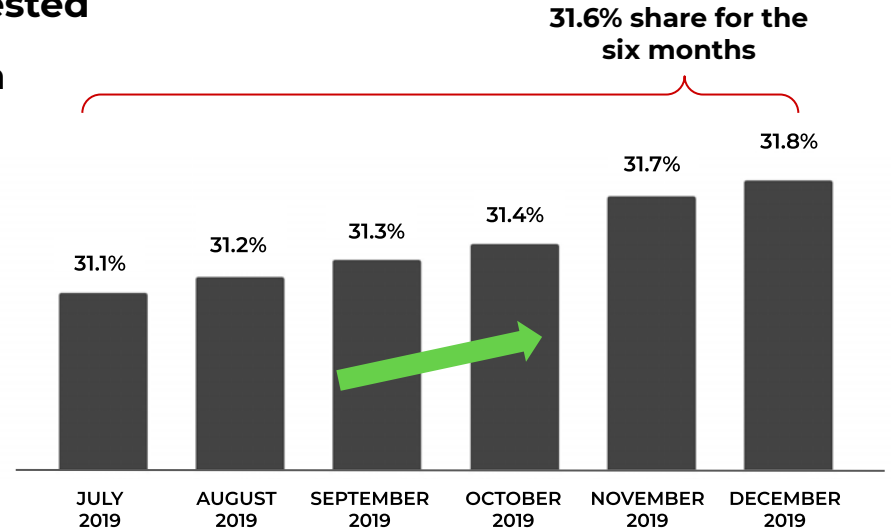


PROGRESSIVE MARKET SHARE GAINS

- All our supermarket brands showed growth ahead of peers
- Shoprite's price leadership remains uncontested
- Checkers delivered industry-leading growth



Supermarkets RSA brands' indexed sales growth vs Nielsen Other Retailers (excl. Liquor) for the six months to Dec 2019







Supermarkets RSA 3mm market share July - December 2019



SUPERMARKETS NON-RSA PERFORMANCE

- **Supermarkets Non-RSA operational strength evidenced by**
 - 4.8% sales growth in constant currency terms
 - 10 of 14 countries increased sales in constant currency terms
 - 5.4% volume growth
 - Zambia sales up 14.7% in constant currency terms
- **3.1% sales decline in rand terms**
 - Significant currency devaluation in Angola and Zambia
- **Currency instability remains the largest uncontrollable issue**
- **Further import restrictions, limited local supply exists**
- **Challenges are complex and country-specific**
- **0.5% trading margin**

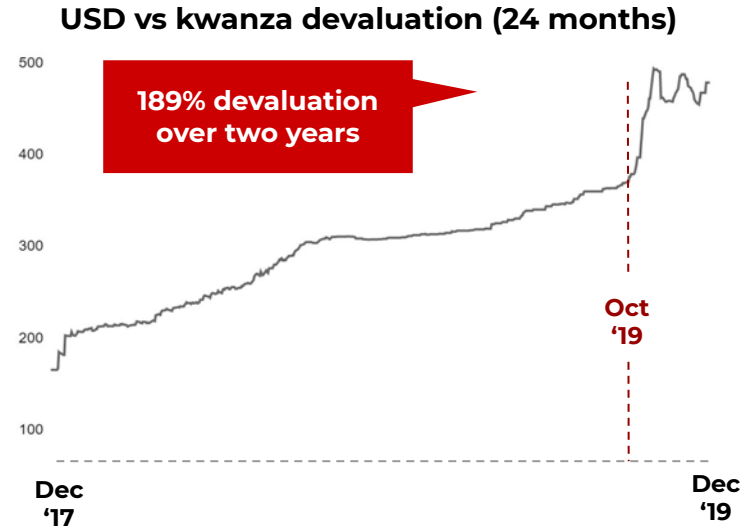
| | Constant currency | Sales growth (ZAR) |
|--|-------------------|--------------------|
| ANGOLA  | -1.9% | -27.5% |
| NIGERIA  | -8.1% | -5.9% |
| NAMIBIA  | +3.7% | +3.7% |
| ZAMBIA  | +14.7% | -1.5% |



ANGOLA PERFORMANCE



- **Affordability for consumers remains challenging**
- **Conditions worsened in Q2**
 - 14% VAT introduced in Oct 2019 hurt consumers
 - Further 29.6% devaluation against USD in Q2 drove sharp increase in price inflation
- **Gross margin percentage maintained**
- **Sufficient liquidity, self-funding operations**
- **Improved stock availability**
- **Repatriated \$34m from Angola**





NIGERIA PERFORMANCE

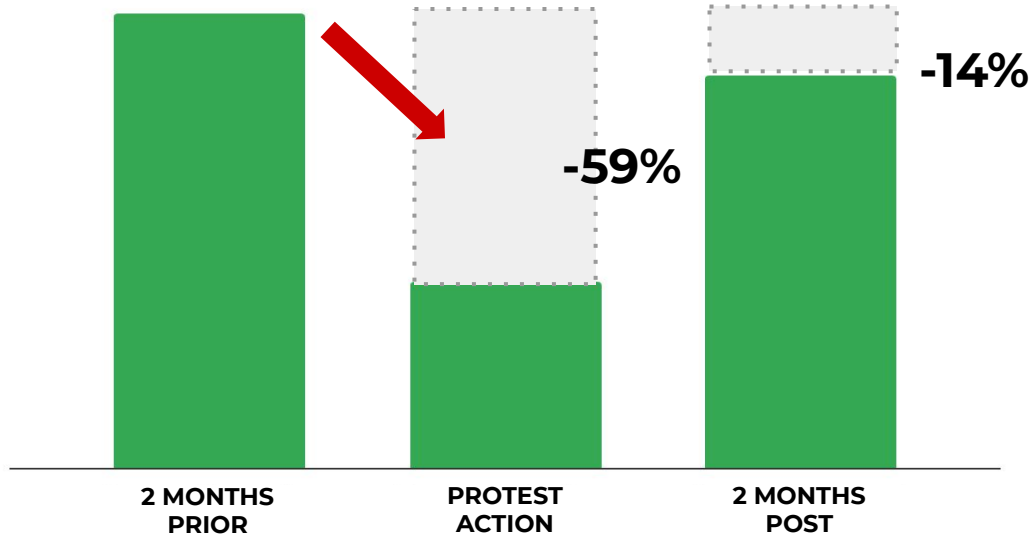


- September protests disrupted footfall in shopping centres

Constant
currency sales

-8.1%

Nigeria supermarkets ave. weekly customer visits





NON-RSA ACTIONS



- Remain committed to the continent, but not at all cost
- Looking at long-term options, but our focus is on immediate actions
- Alternate operating models and structures are under review
- Reviewing options country by country
- Renewed buying interest in our property portfolio could reduce capital invested

Immediate actions taken:

- **Focus on reducing cost of operations**
 - Rent reductions in 17 supermarkets (16 more underway)
 - De-dollarising rent and borrowings
- **Productivity improvements of 2.4% (H1)**
- **Assessing viability of unprofitable stores (closed 4 supermarkets during the period Jan to Dec 2019)**
- **Curbing capital allocation for new stores and developments**
 - Will only have opened 13 supermarkets for the full financial year ending June 2020 (vs 17 planned)
- **Operational actions should improve financial performance**



FURNITURE & OTHER OPERATING SEGMENTS

**House
& Home**

OK
Furniture
OK Power Express

Furniture
sales

R3.3bn

-2.7%

- Closure of 32 unprofitable stores
- Like-for-like sales growth +0.3%

OK
FRANCHISE DIVISION

CFS
Checkers Food Services
QUALITY SUPPLIER TO THE HOSPITALITY & CATERING INDUSTRY

 | Transpharm

Medirite+

Other operating
segments sales

R5.4bn

+4.4%

- OK Franchise division sales +7.5%
 - 470 stores (+22)
- 6-week Transpharm strike
- Trading profit +63.9%

FINANCIAL RESULTS

Chief Financial Officer
ANTON DE BRUYN





IFRS CHANGES SINCE DEC 2018

IAS 29: FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

DECEMBER 2018

- Hyperinflation accounting applied
- Net monetary gain of R458m included in trading profit

DECEMBER 2019

- Hyperinflation accounting not applied
- Additional depreciation of R48m due to hyperinflation accounting up to June 2019

IFRS 16: LEASES

- Restated for IFRS 16:
 - Lease expense
 - Forex exposure
 - Depreciation
 - Finance costs

- IFRS 16: Leases fully implemented



FINANCIAL OVERVIEW

| | 2018 | 2019 | Change |
|--|--------------|--------------|--------|
| Sale of merchandise | R75 837m | R81 150m | 7.0% |
| Gross margin | 23.1% | 23.5% | |
| Total expenses | R15 357m | R16 545m | 7.7% |
| Net monetary gain | R458m | - | - |
| Trading profit | R4 196m | R4 033m | -3.9% |
| Trading margin | 5.5% | 5.0% | |
| Trading profit (excl. hyperinflation) | R3 815m | R4 081m | 7.0% |
| Trading margin (excl. hyperinflation) | 5.0% | 5.0% | |
| EBITDA | R6 486m | R6 833m | 5.3% |
| EBITDA (excl. hyperinflation) | R6 052m | R6 838m | 13.0% |
| Effective tax rate | 27.8% | 31.2% | |
| Diluted HEPS | 382.4c | 372.4c | -2.6% |
| Diluted HEPS (excl. hyperinflation) | 327.8c | 379.3c | 15.7% |



SALES GROWTH PER SEGMENT

| | Like-for-like % | Net new stores % | Total sales % |
|--------------------------|--------------------|------------------------|---------------------|
| Supermarkets RSA | 6.6 | 3.2 | 9.8 |
| Supermarkets Non-RSA | -7.4 | 4.3 | -3.1 |
| Furniture | 0.3 | -3.0 | -2.7 |
| Other operating segments | 5.3 | -0.9 | 4.4 |
| Consolidated | 4.2 | 2.8 | 7.0 |



OTHER OPERATING INCOME

| | 2018 Rm | 2019 Rm | Change % |
|-------------------------|--------------|--------------|-------------|
| Finance income earned | 140 | 133 | -5.0 |
| Premiums earned | 137 | 124 | -9.5 |
| Commissions received | 447 | 477 | 6.7 |
| Operating lease income | 251 | 257 | 2.4 |
| Investment income | 244 | 162 | -33.6 |
| Franchise fees received | 45 | 52 | 15.6 |
| Sundry income | 301 | 322 | 7.0 |
| Total | 1 565 | 1 527 | -2.4 |

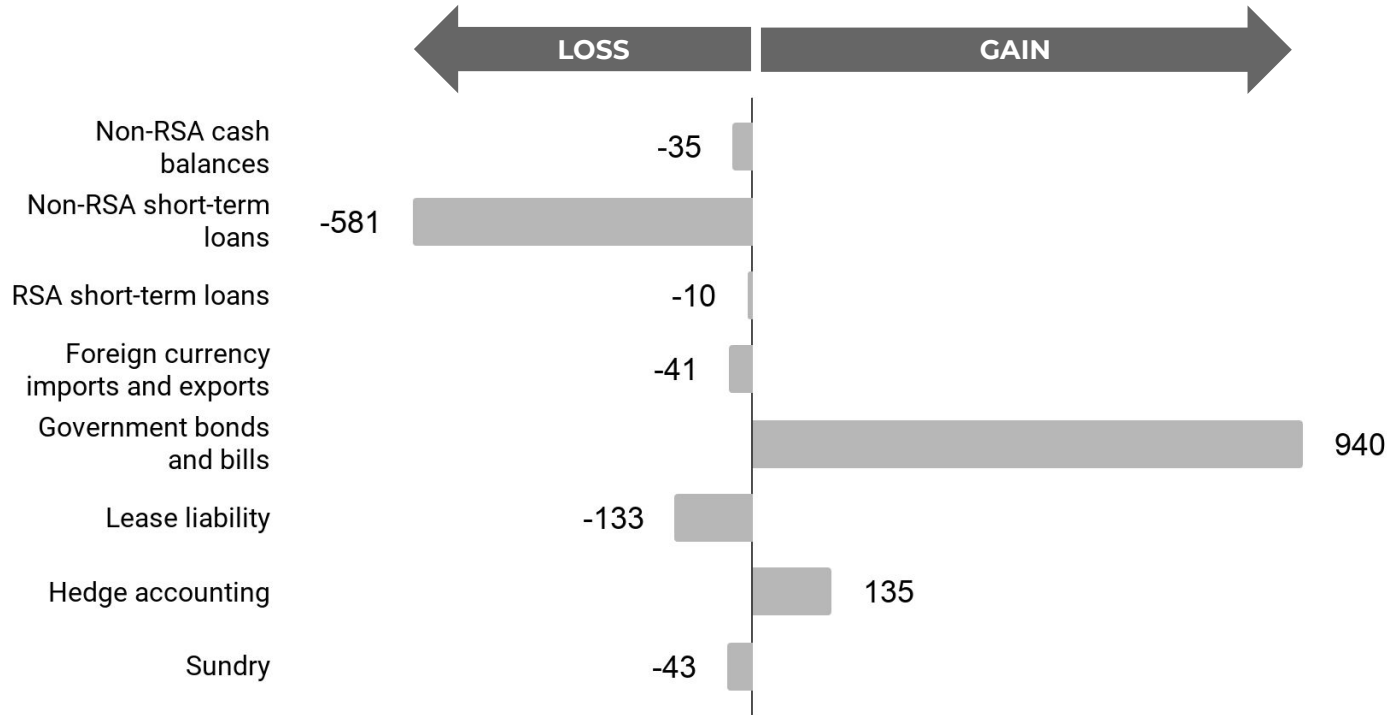


TRADING PROFIT BY SEGMENT

| | 2018 Rm | 2019 Rm | Change % | 2019 Trading margin % |
|---------------------------------|--------------|--------------|-------------|--------------------------------|
| Supermarkets RSA | 3 412 | 3 736 | 9.5 | 6.1 |
| Supermarkets Non-RSA | 154 | 58 | -62.3 | 0.5 |
| Furniture | 177 | 169 | -4.5 | 5.1 |
| Other operating segments | 72 | 118 | 63.9 | 2.2 |
| Total operating segments | 3 815 | 4 081 | 7.0 | 5.0 |
| Hyperinflation effect | 381 | -48 | -112.6 | - |
| Consolidated | 4 196 | 4 033 | -3.9 | 5.0 |



FOREX



2019 Exchange rate losses/gains (Rm)

FOREX

2018: R141m loss
2019: R232m gain

- Hedging strategy for Non-RSA was effective
- R2.5bn invested in Angola, forming a natural hedge



ITEMS OF A CAPITAL NATURE

| | 2018 Rm | 2019 Rm |
|--|------------|------------|
| Profit on disposal of assets held for sale | 32 | 207 |
| Profit on disposal of right-of-use assets | - | 72 |
| Impairment of PPE and intangible assets | -62 | -97 |
| Impairment of right-of-use assets | -72 | -157 |
| Insurance claims receivable | 103 | 6 |
| Other | -8 | -9 |
| Total (loss)/profit | -7 | 22 |



NET FINANCE COSTS

| | 2018 Rm | 2019 Rm |
|--|--------------|--------------|
| Interest received | 139 | 187 |
| Finance costs | 1 280 | 1 467 |
| Net finance costs | 1 141 | 1 280 |
| Less lease liability finance charges | -896 | -968 |
| Net finance costs excl. lease liability finance charges | 245 | 312 |

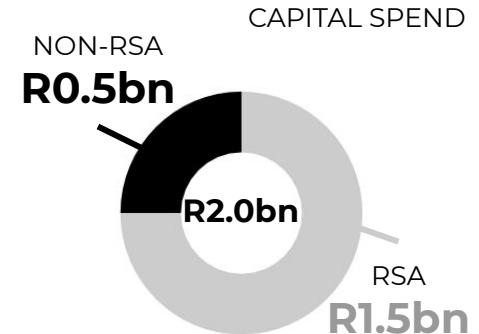


ASSETS AND CAPITAL SPEND

| | 2018 Rm | 2019 Rm |
|--|---------------|---------------|
| Group total assets | 84 635 | 86 219 |
| Supermarkets Non-RSA total assets | 19 639 | 17 454 |
| Government bonds and bills | 3 522 | 2 512 |
| Inventories | 3 733 | 3 496 |
| PPE and ROU assets | 7 435 | 6 647 |
| Other | 4 949 | 4 799 |

CAPITAL SPEND
2018: R2.8bn
2019: R2.0bn

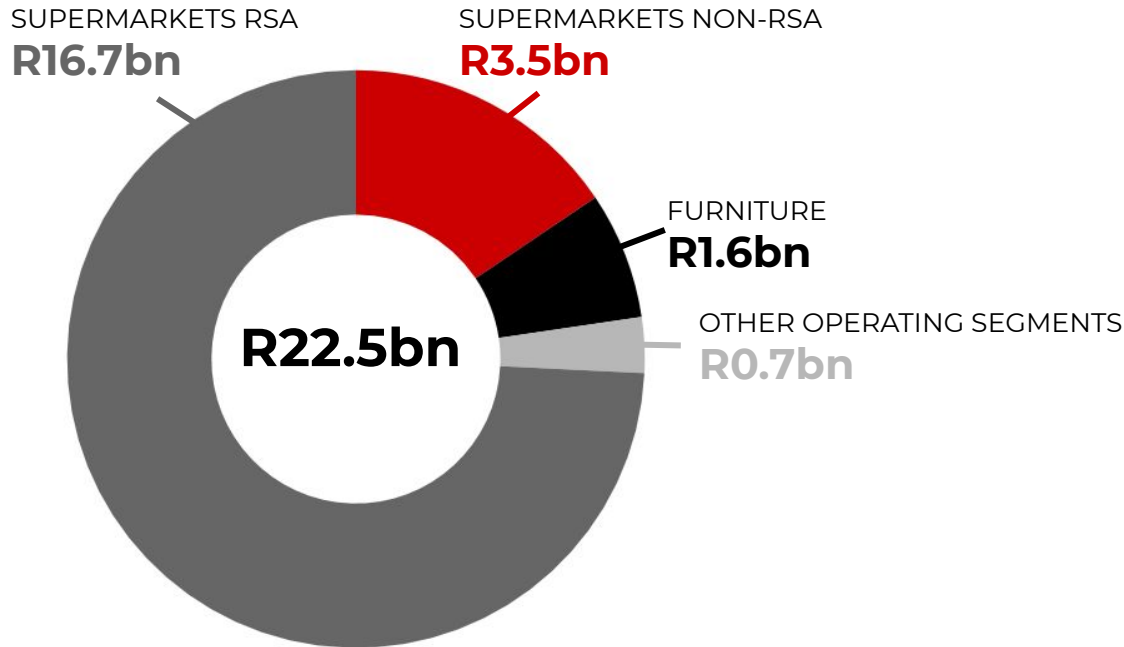
-30.0%



CAPITAL SPEND AS % OF LAST 12
MONTHS SALES
2018: 1.9%
2019: 1.3%

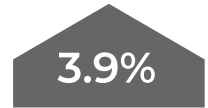


INVENTORIES



Inventories by segment

INVENTORIES
2018: R21.7bn
2019: R22.5bn

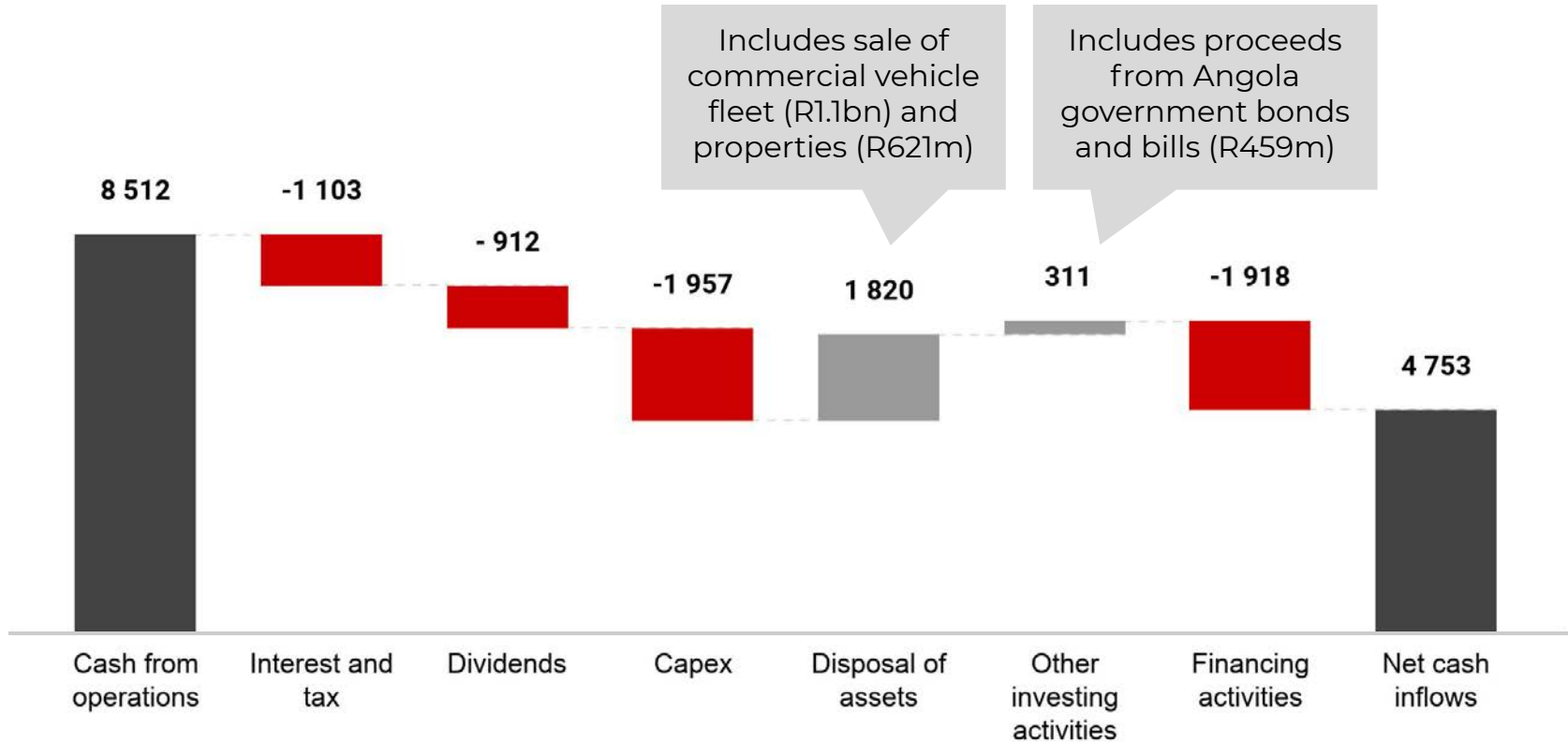


CHANGES IN WORKING CAPITAL
2018: -R0.9bn
2019: R2.0bn

INVENTORIES AS % OF LAST 12 MONTHS SALES
2018: 14.9%
2019: 14.5%



CASH FLOWS



Cash flows (Rm)



NET DEBT

| | JUN 2019 Rm | DEC 2019 Rm |
|--------------------------|-------------------|-------------------|
| Net cash position | 3 583 | 8 028 |
| Borrowings | -11 706 | -11 363 |
| Net borrowings | -8 123 | -3 335 |
| Lease liabilities | -21 478 | -23 841 |
| Net debt | -29 601 | -27 176 |

NET BORROWINGS
JUN 2019: R8.1bn
DEC 2019: R3.3bn

-58.9%

NET BORROWINGS: EBITDA
JUN 2019: 0.6
DEC 2019: 0.3

NET DEBT: EBITDA
JUN 2019: 2.3
DEC 2019: 2.1



PROPERTY TRANSACTION

Salient transaction terms:

| | |
|--------------------------------------|---|
| Propco | <ul style="list-style-type: none">• Unlisted property entity to be established with Equites• Shoprite interest: 49.9% (equity accounted) |
| Consideration | <ul style="list-style-type: none">• PropCo shares and cash (R1.2bn) |
| Disposal yield | <ul style="list-style-type: none">• 7.5% |
| Distribution centres included | <ul style="list-style-type: none">• Brackenfell, Centurion and Cilmor |
| Lease terms | <ul style="list-style-type: none">• Tenure 20 years• Three 10-year renewal options• Escalation fixed at 5% per annum |



UPDATE ON SALE OF DCs



Strategic rationale:

- ✓ In line with the Group's strategy to optimise ROIC
- ✓ Release of capital to be deployed into higher yielding retail projects and technology, as opposed to debt reduction
- ✓ Provides operational and capital flexibility
- ✓ Results in a strategic partnership with a best-in-class logistics property company in South Africa



UPDATED METRICS AND GUIDANCE

ROIC

9.6%-11.6%

UPDATED
2020-2022 TARGET

DILUTED HEPS

5%-7%

UPDATED
2020-2022 TARGET

DIVIDEND

156 cents

POLICY CONSISTENT WITH
PREVIOUS YEARS

GROUP
CAPEX GUIDANCE

R4.8bn

JUN 2020

INVENTORIES
% OF SALES TARGET

12.4%

JUN 2020

EFFECTIVE TAX RATE
GUIDANCE

31%-33%

JUN 2020

STRATEGY UPDATE

Chief Executive Officer
PIETER ENGELBRECHT





STRATEGY UPDATE

1. A TRULY
CUSTOMER-FIRST
CULTURE

2. DEVELOP
FUTURE-FIT
CHANNELS

3. ENABLE
PRECISION
RETAILING

4. TRUSTED,
PROFITABLE
PRIVATE LABELS

5. GROW SHARE IN
PREMIUM FOOD
& FRESH

6. A STRONGER
FRANCHISE
OFFER

7. PRESERVE
OUR AFRICAN
ADVANTAGE

8. REFOCUS
CAPITAL
ALLOCATION

9. UNLOCK
ALTERNATIVE
REVENUE

**A SMARTER
SHOPRITE**

**CLOSING THE GAP
IN KEY SEGMENTS**

**WINNING IN THE
LONG TERM**



GROWTH STRATEGY UPDATE



Significant milestones in H1

Advancing customer centricity through digital transformation

- ✓ Launch of Checkers Xtra Savings Rewards Programme
- ✓ Pioneered 1-hour grocery delivery service Sixty60

Closing headroom opportunity in key segments

- ✓ Checkers leading market share gains
- ✓ Constantia and Sandton FreshX flagship stores
- ✓ Uninterrupted share gains in Liquor, Fresh and Convenience foods
- ✓ Further increase in private label participation (+10bps to 16.1%)



CUSTOMER-FIRST CULTURE



- Checkers Xtra Savings Rewards Programme launched Oct 2019
- 3.8m sign ups already, completely paperless
- Record market share achieved during the period
- Enables precision marketing and personalisation

250
SIGN UPS
PER SECOND AT
LAUNCH

One million customers sign up for Checkers Xtra Savings in the first week

COMPANIES / 21 OCTOBER 2019, 1:15PM / STAFF REPORTER

[f](#) [t](#) [in](#) [m](#) [w](#)





PIONEERED 1 HOUR GROCERY DELIVERY



- Sixty60 on demand grocery delivery launched Nov 2019
- Doing more for customers - ultra fast convenience shopping
- Beta testing performing well - avg. delivery time 50m 10sec
- Positive customer response

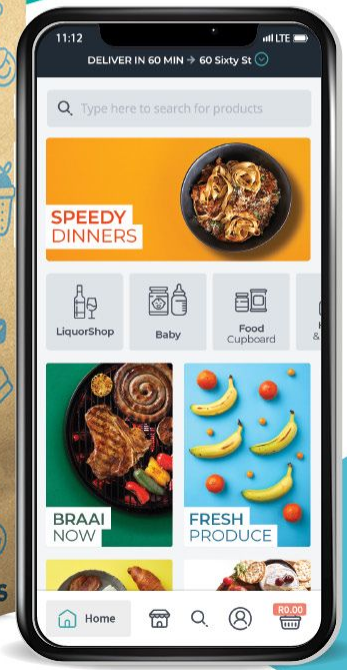
Thank you @CheckersSA @checkers60sixty! What a great experience - delivery under 60 minutes! Loving these paper bags as well. #service #fast #delivery #checkers60sixty 🙌
pic.twitter.com/zN2hZf8Z1l





Sixty60

video

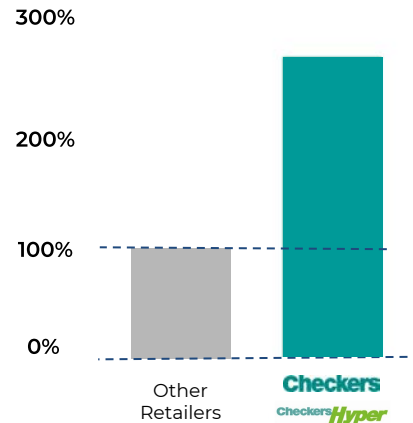




GROWING SHARE IN PREMIUM AND FRESH



- Our assault on premium food retail is gathering pace
- Achieved a further R350m fresh share gains for H1
- Checkers sales growth 2.7x other retailers' sales growth



**Checkers indexed sales growth
vs Other Retailers for the six months to Dec '19**

SOURCE: Nielsen, 2019 RSA





GROWING SHARE IN PREMIUM AND FRESH

Unveiled FreshX flagship stores in the affluent Sandton and Constantia areas



EXPRESS SANDTON
OPENED SEPT '19

3.5x

More upmarket
customer visits



CONSTANTIA
OPENED NOV '19

1.5x

Basket value vs. rest
of Checkers



LEADING GROWTH IN LIQUOR



- Runway for growth (19.9% RSA liquor share vs. 31.6% in grocery)
- 518 Stores - opened more than a store a week

20.6%
SALES GROWTH
H1 2019/20

+1.9%
RSA MARKET SHARE
GAINS
NIELSEN 6MM DEC 2019

LiquorShop
SHOPRITE

LiquorShop
Checkers

SOURCE: Nielsen, 2019 RSA



WINNING IN THE LONG TERM

- Shifting to optimisation phase of our long-term strategy
- Precision retailing and personalisation through Xtra Savings customer platform
- Engineering the next era of growth to unlock new revenue streams



OUTLOOK

SHOPRITE 
HOLDINGS LTD



OUTLOOK



- Inflation not expected to increase materially
- Sales growth momentum for first 6 weeks in line with H1
- More demanding RSA sales base, especially in Q4
- No expected Non-RSA macroeconomic relief, but actions should improve performance
- Supermarket expansion continues in H2, focus on smaller formats
 - 40 new supermarkets (28 are Usaves)
- Shoprite will continue to grow through price leadership

QUESTIONS

SHOPRITE 
HOLDINGS LTD